

EXHIBIT A

JOANN Inc.

CONSOLIDATED FINANCIAL STATEMENTS

Thirteen Weeks Ended August 3, 2024 (Successor)

Thirteen Weeks and Twenty-Six Weeks Ended July 29, 2023 (Predecessor)

Note: This document contains confidential non-public information.

Table of Contents

	<u>Page</u>
<u>SUMMARY RISK FACTORS</u>	1
<u>FINANCIAL STATEMENTS</u>	2
<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Consolidated Statements of Shareholders' Equity (Deficit)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Controls and Procedures</u>	29
<u>Signatures</u>	30

- Confidential / Subject to NDA -
Connie Choe
cchoe@kelleydrye.com
UCC Advisors
Kelley Drye & Warren LLP
2025-02-06 12:21:28 -0500

SUMMARY RISK FACTORS

We are subject to a number of risks, including risks that may prevent us from achieving our business objectives or that may adversely affect our business, financial condition and results of operations, including but not limited to the following:

- as a result of the Chapter 11 Cases, our historical financial information may not be indicative of our future financial performance;
- general economic factors, including the adverse impacts of inflation, may materially and adversely affect our business, financial condition and results of operations;
- increased costs related to the production of our merchandise or disruptions in our distribution network could materially and adversely affect our business, financial condition and results of operations;
- increased freight costs on imported products could continue to adversely affect our business, financial condition and results of operations;
- evolving U.S. trade regulations and policies, such as tariffs, including with China and other Asian countries, have in the past and may in the future have a material and adverse effect on our business, financial condition and results of operations;
- our inability to respond effectively to competitive pressures, changes in the retail markets and customer expectations could result in lost market share, which could have a material and adverse effect on our business, financial condition and results of operations;
- we may face risks related to our indebtedness, including risks related to compliance with the affirmative and negative covenants contained in our credit facility and term loan facility;
- failure to manage inventory effectively, predict new consumer trends or effectively react to changes in consumer buying habits could materially and adversely affect our business, financial condition and results of operations;
- the seasonality of our sales may negatively impact our operating results;
- we increasingly depend on e-commerce, and our failure to successfully manage this channel and deliver a convenient omni-channel shopping experience to our customers could have a material and adverse effect on our business, financial condition and results of operations;
- failure to attract, develop, motivate and retain qualified team members and effectively manage increases in labor costs as a result of competition for workers, labor shortages, labor market pressures and increased minimum wage requirements could limit our growth and materially and adversely affect our business, financial condition and results of operations;
- our reliance on foreign suppliers increases our risks of not obtaining adequate, timely and cost effective merchandise, as well as risks involved in foreign operations and foreign currency translation;
- failure to adequately maintain the security of, and prevent unauthorized access to, our electronic and other confidential information, including customer and team member personal information, could materially and adversely affect our business, financial condition and results of operations; and
- intentional or accidental disruptions to our information systems or those of third party software applications that support our business, including our mobile application and primary e-commerce website, or our failure to adequately support, maintain, secure and upgrade these systems could materially and adversely affect our business, financial condition and results of operations.

Our business also faces a number of other challenges and risks discussed throughout this Quarterly Report.

FINANCIAL STATEMENTS

JOANN Inc.
Consolidated Balance Sheets
(In millions)

	(Unaudited)		
	Successor August 3, 2024	Predecessor July 29, 2023	Predecessor February 3, 2024
Assets			
Current assets:			
Cash and cash equivalents	\$ 15.7	\$ 19.1	\$ 22.3
Inventories	647.1	642.0	565.6
Prepaid expenses and other current assets	22.5	62.6	30.8
Total current assets	685.3	723.7	618.7
Property, equipment and leasehold improvements, net	305.8	282.1	232.2
Operating lease assets	748.3	780.2	742.2
Goodwill, net	72.9	162.0	17.6
Intangible assets, net	156.6	267.8	179.9
Other assets	31.3	44.4	36.7
Total assets	<u>\$ 2,000.2</u>	<u>\$ 2,260.2</u>	<u>\$ 1,827.3</u>
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities:			
Accounts payable	\$ 260.0	\$ 261.7	\$ 234.4
Accrued expenses	111.1	122.8	108.5
Current portion of operating lease liabilities	142.3	172.0	175.7
Current portion of long-term debt	1.6	6.8	6.8
Total current liabilities	514.7	563.3	525.4
Long-term debt, net	619.7	1,094.7	1,047.5
Long-term operating lease liabilities	605.1	714.8	674.5
Long-term deferred income taxes	44.8	20.4	11.7
Other long-term liabilities	21.8	29.2	25.4
Shareholders' equity (deficit):			
Predecessor common stock, stated value \$0.01 per share; 200.0 million authorized; issued 44.1 million shares at July 29, 2023 and February 3, 2024	—	0.4	0.4
Successor common stock, stated value \$0.01 per share; 200.0 million authorized; issued 100.0 million shares at August 3, 2024	1.0	—	—
Predecessor additional paid-in capital	—	207.6	206.7
Successor additional paid-in capital	285.4	—	—
Retained (deficit)	(92.3)	(366.7)	(658.2)
Accumulated other comprehensive income	—	15.5	10.9
Predecessor treasury stock at cost; 2.2 million shares at July 29, 2023 and 2.0 million shares at February 3, 2024	—	(19.0)	(17.0)
Total shareholders' equity (deficit)	194.1	(162.2)	(457.2)
Total liabilities and shareholders' equity (deficit)	<u>\$ 2,000.2</u>	<u>\$ 2,260.2</u>	<u>\$ 1,827.3</u>

See notes to unaudited consolidated financial statements.

JOANN Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited and in millions)

	Successor Thirteen Weeks Ended August 3, 2024	Predecessor Thirteen Weeks Ended July 29, 2023
Net sales	410.1	\$ 453.8
Cost of sales	213.8	221.8
Selling, general and administrative expenses	255.3	269.9
Depreciation and amortization	16.4	18.9
Operating (loss)	(75.4)	(56.8)
Interest expense, net	16.9	26.8
(Loss) before income taxes	(92.3)	(83.6)
Income tax (benefit)	—	(11.5)
Loss from equity method investments	—	1.2
Net (loss)	\$ (92.3)	\$ (73.3)
Other comprehensive income:		
Cash flow hedges	—	8.6
Income tax (provision) on cash flow hedges	—	(2.2)
Other comprehensive income	—	6.4
Comprehensive (loss)	\$ (92.3)	\$ (66.9)

	Successor Thirteen Weeks Ended August 3, 2024	Predecessor Thirteen Weeks Ended May 4, 2024	Predecessor Twenty-Six Weeks Ended July 29, 2023
Net sales	\$ 410.1	\$ 455.0	\$ 931.9
Cost of sales	213.8	231.3	450.9
Selling, general and administrative expenses	255.3	252.3	532.8
Depreciation and amortization	16.4	16.6	39.2
Operating (loss)	(75.4)	(45.2)	(91.0)
Interest expense, net	16.9	8.0	52.1
Reorganization items, net	—	(551.5)	—
Other, net	—	1.3	—
Income (loss) before income taxes	(92.3)	497.0	(143.1)
Income tax provision (benefit)	—	34.4	(19.3)
Loss from equity method investments	—	0.2	3.7
Net income (loss)	\$ (92.3)	\$ 462.4	\$ (127.5)
Other comprehensive income (loss):			
Cash flow hedges	—	(14.6)	9.7
Income tax benefit (provision) on cash flow hedges	—	3.7	(2.5)
Other comprehensive income (loss)	—	(10.9)	7.2
Comprehensive income (loss)	\$ (92.3)	\$ 451.5	\$ (120.3)

See notes to unaudited consolidated financial statements.

JOANN Inc.
Consolidated Statements of Cash Flows
(Unaudited and in millions)

	Successor	Predecessor	
	Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	August 3, 2024	May 4, 2024	July 29, 2023
Net cash provided by (used for) operating activities:			
Net income (loss)	\$ (92.3)	\$ 462.4	\$ (127.5)
Adjustments to reconcile net income (loss) to net cash (used for) operating activities:			
Non-cash operating lease expense	38.9	43.1	87.0
Depreciation and amortization	16.4	16.6	39.2
Deferred income taxes	—	36.8	1.1
Stock-based compensation expense	—	0.4	6.8
Amortization of deferred financing costs and original issue discount	—	0.6	1.6
Loss on disposal and impairment of fixed assets	0.1	1.5	1.2
Step acquisition write-off	—	1.3	—
Non-cash reorganization items, net	—	(579.8)	—
Loss on equity method investment	—	0.2	3.7
Interest rate swap termination	—	(14.6)	—
DIP PIK Interest	—	0.4	—
Changes in operating assets and liabilities:			
Decrease (increase) in inventories	(101.5)	20.0	(57.9)
Decrease (increase) in prepaid expenses and other current assets	2.7	3.5	(16.8)
Increase (decrease) in accounts payable	71.5	(20.9)	64.2
Increase in accrued expenses	2.6	10.4	7.3
(Decrease) in operating lease liabilities	(35.7)	(43.9)	(86.8)
Increase (decrease) in other long-term liabilities	(1.1)	0.3	0.3
Other, net	3.9	(0.1)	(5.7)
Net cash (used for) operating activities	(94.5)	(61.8)	(82.3)
Net cash provided by (used for) investing activities:			
Capital expenditures	(6.1)	(6.8)	(29.4)
Other investing activities	—	0.3	(1.6)
Net cash (used for) investing activities	(6.1)	(6.5)	(31.0)
Net cash provided by (used for) financing activities:			
Term loan payments	—	—	(3.4)
DIP loan proceeds	—	107.0	—
FILO proceeds	—	—	97.0
Borrowings on revolving credit facility	171.7	365.5	311.2
Payments on revolving credit facility	(82.2)	(396.0)	(283.2)
Principal payments on finance lease obligations	(1.2)	(1.6)	(4.6)
Proceeds from employee stock purchase plan and exercise of stock options	—	—	0.5
Payments of taxes related to the net issuance of team member stock awards	—	—	(0.1)
Financing fees paid	—	(0.9)	(5.2)
Net cash provided by financing activities	88.3	74.0	112.2
Net increase (decrease) in cash and cash equivalents	(12.3)	5.7	(1.1)
Cash, cash equivalents and restricted cash at beginning of period	28.0	22.3	20.2
Cash, cash equivalents and restricted cash at end of period	<u>\$ 15.7</u>	<u>\$ 28.0</u>	<u>\$ 19.1</u>
Cash paid (received) during the period for:			
Interest	\$ 10.0	\$ 23.3	\$ 48.7
Income taxes, net of (refunds)	(0.4)	(0.5)	(2.3)

See notes to unaudited consolidated financial statements.

JOANN Inc.
Consolidated Statements of Shareholders' Equity (Deficit)
(Unaudited and in millions)

	Net Common Shares	Treasury Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Retained (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' (Deficit)
				(In millions)				
Balance, February 3, 2024 (Predecessor)	42.1	2.0	\$ 0.4	\$ 206.7	\$ (17.0)	\$ (658.2)	\$ 10.9	\$ (457.2)
Net income	—	—	—	—	—	462.4	—	462.4
Other comprehensive (loss)	—	—	—	—	—	—	(10.9)	(10.9)
Stock-based compensation	—	—	—	0.4	—	—	—	0.4
Acceleration of Predecessor equity awards	—	—	—	5.3	—	—	—	5.3
Balance, May 4, 2024 (Predecessor)	42.1	2.0	0.4	212.4	(17.0)	(195.8)	—	—
Cancellation of Predecessor equity	(42.1)	(2.0)	(0.4)	(212.4)	17.0	195.8	—	—
Balance, May 4, 2024 (Predecessor)	—	—	—	—	—	—	—	—
Issuance of common stock	100.0	—	1.0	285.4	—	—	—	286.4
Balance, May 4, 2024 (Successor)	100.0	—	\$ 1.0	\$ 285.4	\$ —	\$ —	\$ —	\$ 286.4
Net income	—	—	—	—	—	(92.3)	—	(92.3)
Balance, August 3, 2024 (Successor)	100.0	—	\$ 1.0	\$ 285.4	\$ —	\$ (92.3)	\$ —	\$ 194.1
	Net Common Shares	Treasury Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock	Retained (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
				(In millions)				
Balance, January 28, 2023 (Predecessor)	41.1	3.0	\$ 0.4	\$ 208.0	\$ (26.6)	\$ (239.2)	\$ 8.3	\$ (49.1)
Net (loss)	—	—	—	—	—	(54.2)	—	(54.2)
Other comprehensive income	—	—	—	—	—	—	0.8	0.8
Stock-based compensation	—	—	—	5.3	—	—	—	5.3
Exercise of stock options	—	—	—	(0.4)	0.4	—	—	—
Vesting of restricted stock units	0.1	(0.1)	—	(0.9)	0.8	—	—	(0.1)
Balance, April 29, 2023 (Predecessor)	41.2	2.9	\$ 0.4	\$ 212.2	\$ (25.4)	\$ (293.4)	\$ 9.1	\$ (97.3)
Net (loss)	—	—	—	—	—	(73.3)	—	(73.3)
Other comprehensive (loss)	—	—	—	—	—	—	6.4	6.4
Stock-based compensation	—	—	—	1.5	—	—	—	1.5
Vesting of restricted stock units	0.1	(0.1)	—	(0.1)	0.9	—	—	—
Employee stock purchase plan purchases	0.6	(0.6)	—	(5.0)	5.5	—	—	0.5
Balance, July 29, 2023 (Predecessor)	41.9	2.2	\$ 0.4	\$ 207.6	\$ (19.0)	\$ (366.7)	\$ 15.5	\$ (162.2)

See notes to unaudited consolidated financial statements.

JOANN Inc.
Notes to Consolidated Financial Statements
(Unaudited and in millions)

Note 1—Significant Accounting Policies

Nature of Operations

JOANN (as defined below) is the nation's category leader in sewing and fabrics (collectively, "Sewing"), with one of the largest assortments of arts and crafts products. As a well-established and trusted brand for over 80 years, the Company believes it has a deep understanding of its customers, what inspires their creativity and what fuels their incredibly diverse projects. In order to best serve its customers, JOANN has transformed itself into a fully-integrated, digitally-connected omni-channel retailer that provides sewing, arts and crafts and select home décor products ("Creative Products") to its customers whenever and however they want. As of August 3, 2024, the Company operated 801 store locations in 49 states.

Basis of Presentation

The accompanying Consolidated Financial Statements and these notes are unaudited and have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The Consolidated Financial Statements reflect all normal, recurring adjustments which management believes are necessary to present fairly the Company's financial condition, results of operations and cash flows for all periods presented. The Consolidated Financial Statements, however, do not include all information necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with GAAP. The accompanying Consolidated Financial Statements and these notes should be read in conjunction with the Company's Annual Report for the fiscal year ended February 3, 2024.

Consolidation

The Consolidated Financial Statements include the accounts of JOANN Inc. (the "Holding Company"), Needle Holdings LLC ("Needle Holdings"), JOANN Holdings 1, LLC, JOANN Holdings 2, LLC and Jo-Ann Stores, LLC and its wholly-owned subsidiaries (collectively, "JOANN"). All of the entities referenced in the prior sentence hereinafter will be referred to collectively as the "Company" and all intercompany accounts and transactions have been eliminated upon consolidation.

The Holding Company has no operating activities and is limited to the issuance of stock-based awards, the issuance and repurchase of debt, the receipt and payment of dividends or distributions and the payment of interest expense. Likewise, Needle Holdings has no operating activities and is limited to the issuance of stock-based awards and the payment of dividends or distributions. JOANN Holdings 1, LLC and JOANN Holdings 2, LLC have no operating or other activities.

Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code

On March 18, 2024, (the "Petition Date"), the Company and certain of its subsidiaries (collectively with the Company, the "Company Parties" or the "Debtors") filed a prepackaged joint plan of reorganization (the "Plan") and commenced voluntary petitions under chapter 11 (the "Chapter 11 Cases") of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Plan, as amended, was confirmed by the Bankruptcy Court on April 25, 2024, and the Debtors emerged from the bankruptcy proceedings on April 30, 2024 (the "Effective Date"). The consolidated financial statements included herein have been prepared as if we were a going concern and in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 852 - Reorganizations ("ASC 852").

As discussed in Note 3 - Fresh Start Accounting, in accordance with ASC 852, we were required to implement Fresh Start Accounting upon emergence from the bankruptcy proceedings. We evaluated the events between the Effective Date and May 4, 2024, and concluded that the use of an accounting convenience date of May 4, 2024 ("Fresh Start Reporting Date") would not have a material impact on our consolidated statement of comprehensive income (loss) or consolidated balance sheet. As such, the application of fresh start accounting was reflected in our consolidated balance sheet as of May 4, 2024, and fresh start accounting adjustments related thereto were included in our consolidated statement of comprehensive income (loss) for the period ended May 4, 2024.

References to "Successor" relate to the consolidated statement of comprehensive income (loss) subsequent to the Fresh Start Reporting Date and consolidated balance sheet of the reorganized Company as of and subsequent to May 4, 2024. References to "Predecessor" relate to the consolidated statements of comprehensive income (loss) prior to and including May 4, 2024, and the consolidated balance sheet of the Company prior to May 4, 2024.

See Note 2 - Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code and Note 3 - Fresh Start Accounting for further details.

Fiscal Periods

The Company's fiscal year ends on the Saturday closest to January 31 and refers to the year in which the period ends (e.g., fiscal 2024 refers to the fiscal year ending February 3, 2024). Fiscal years consist of 52 weeks, unless noted otherwise. Fiscal 2024 consisted of 53 weeks and ended February 3, 2024. The fiscal quarters ended August 3, 2024 and July 29, 2023 were both comprised of 13 weeks.

Seasonality

Typical of most retail companies, the Company's business is seasonal, with the majority of revenues and operating profits generated in the second half of the fiscal year. Accordingly, earnings or losses for a particular interim period are not necessarily indicative of full-year results.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

Recently Issued Accounting Guidance

There are no recently issued accounting pronouncements that the Company has not yet adopted which would have a material impact on the Consolidated Financial Statements.

Note 2—Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code

On March 15, 2024, prior to the commencement of the Chapter 11 Cases, the Company Parties entered into a Transaction Support Agreement (the "Transaction Support Agreement") with certain holders of claims arising under the Company's senior secured term loan facility (the "Consenting Term Lenders"), certain stockholders of the Company, including Green Equity Investors CF, L.P., Green Equity Investors Side CF, L.P., LGP Associates CF, LLC, and certain current or former members of the Company's board of directors (the "Consenting Stockholder Parties"), and certain third-party financing parties that executed joinders thereto to support a restructuring (the "Restructuring") on the terms set forth in the Plan.

On the Petition Date, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware pursuant to a prepackaged plan of reorganization. The Plan, as amended, was confirmed by the Bankruptcy Court on April 25, 2024 and the Debtors emerged from the bankruptcy proceedings on April 30, 2024.

Debtor-in-Possession Credit Agreement

The Debtors entered into a Senior Secured Super-Priority Debtor-in-Possession Term Loan Credit Agreement (the "DIP Credit Agreement"), which provided a super-priority senior secured debtor-in-possession term loan credit facility in an aggregate principal amount of up to \$142.0 million (the "DIP Facility"), consisting of (i) \$107.0 million in "new money" term loans, (ii) \$25.0 million of outstanding trade payables exchanged into term loans, and (iii) an uncommitted accordion facility of up to \$10.0 million of term loans (the "Accordion Facility") (collectively, the "DIP Term Loans"). Borrowings under the DIP Facility were senior secured obligations of the Debtors, secured by a super-priority lien on the collateral under the DIP Facility, which included substantially all of the Debtors' assets, but subject to the collateral priorities set forth in the DIP Credit Agreement and other applicable documents.

Fees and expenses under the DIP Facility include (i) a backstop fee equal to 20.0% of DIP Term Loans payable in kind in exchange for their agreement to backstop their respective agreements to fund the DIP Term Loans (the "Backstop Fee"), and (ii) a participation fee equal to 85.0% of the common equity interests of the reorganized Company following the consummation of the transactions contemplated by the Transaction Support Agreement and the Plan (subject to dilution by the Management Incentive Plan (as defined below)). Additional parties providing DIP Term Loans also received, on the Effective Date, approximately 12.5% of the common equity interests of the reorganized Company following consummation of the transactions contemplated by the Transaction Support Agreement and the Plan (together with the other participation fees, the "DIP Facility Participation Fees"). At the Effective Date, the parties that provided the DIP Facility received 97.5% in the aggregate of the common equity interests of the reorganized Company, subject to dilution on account of a management incentive plan (the "Management Incentive Plan" or "MIP") to be adopted by the reorganized Company following the Effective Date.

On or after the Effective Date, the following occurred:

- Allowed other secured claims were paid or will be paid at the full amount of the allowed claim;

- **ABL Claims and FILO Claims** – The Company Parties entered into a Second Amended and Restated Credit Agreement (the “Exit ABL Credit Agreement”), which amended and restated the Amended and Restated Credit Agreement of the Predecessor relating to the Company’s senior secured asset-based revolving credit facility and the Predecessor’s senior secured asset-based first-in last-out credit facility. ABL and FILO claimants received their pro rata share of the refinanced loans and cash in an amount equal to the accrued and unpaid interest payable through the Effective Date. The FILO prepayment premium (\$15.7 million) was waived and any unpaid portion of the Collateral Monitoring Fee (as defined in the Exit ABL Credit Agreement) is to be paid on a monthly basis, in accordance with the governing agreements;
- **New Exit Term Loan Credit Agreement** – The Company Parties entered into an exit term loan credit agreement (the “Exit Term Loan Credit Agreement”) with the lenders under the DIP Term Loans, providing for approximately \$153.8 million aggregate principal amount of exit term loans comprised of converted DIP Term Loans in the same aggregate principal amount (plus accrued interest and fees payable in kind, if any) based on amounts outstanding under the DIP Facility on the Effective Date (the “Exit Term Loans due 2028”);
- **Term Loan Claims** – The Term Loan Due 2028 was cancelled and holders of such claims received their pro rata share of 2.5% of the common equity interests of the reorganized Company (subject to dilution by the Management Incentive Plan);
- **General Unsecured Claims** – All allowed general unsecured claims were paid in the ordinary course of business in accordance with the terms and conditions of the particular transaction or agreement giving rise to such allowed general unsecured claim;
- All previously issued and outstanding equity interests in the Predecessor were cancelled and the holders thereof did not receive any distribution;
- As required by the Plan, all members of the Predecessor board of directors resigned as of the Effective Date and the new board of directors provided for in the Plan became effective immediately; and
- Pursuant to Plan, the reorganized Company is to adopt the MIP. As of the Fresh Start Reporting Date the terms of awards under the MIP have not been established; as such, no grants have been awarded pursuant to the MIP.

The foregoing is a summary of the substantive provisions of the Plan and related transactions and is not intended to be a complete description of, or a substitute for a full and complete reading of, the Plan, the Confirmation Order, and the other documents referred to above.

Reorganization Items, net

As per ASC 852, any expenses, gains and losses that were realized or incurred on and subsequent to the Petition Date and as a direct result of the Chapter 11 Cases were recorded as reorganization items, net in our consolidated statement of comprehensive income (loss). Reorganization items, net consist of:

(In millions)	Predecessor Thirteen Weeks Ended May 4, 2024
Gain on settlement of liabilities subject to compromise (non-cash)	\$ 666.7
Fresh start valuation adjustments (non-cash)	240.1
Adjustment of term loan claims (non-cash)	9.8
DIP Facility Participation Fees (non-cash)	(279.2)
Backstop Fee (non-cash)	(21.4)
FILO prepayment premium (non-cash)	(15.7)
Professional fees (cash)	(24.5)
Unamortized discounts and debt issuance costs (non-cash)	(15.4)
Acceleration of Predecessor equity awards (non-cash)	(5.3)
Other (cash)	(3.6)
Total reorganization items, net	\$ 551.5

Cash paid for reorganization items during the Predecessor period from February 4, 2024 to May 4, 2024 were \$11.0 million.

Liabilities Subject to Compromise

During bankruptcy, the Debtors’ liabilities were segregated into those subject to compromise and those not subject to compromise under ASC 852. Liabilities subject to compromise represent pre-petition obligations that were not fully secured and that had at least a possibility of not being repaid at the full claim amount. The Predecessor presented liabilities subject to compromise at the expected amount of allowed claims and aggregated as a single line item on its balance sheet. See Note 3 — Fresh Start Accounting for further details on the settlement of liabilities subject to compromise in accordance with the Plan.

As of the Petition Date, the Company discontinued recording interest on the Term Loan Due 2028 as this obligation was impaired under the terms of the Plan and post-petition interest was not allowed by the Bankruptcy Court. The contractual interest on the Term

Loan Due 2028 not accrued in the Company's consolidated statements of comprehensive income (loss) was \$8.1 million for the period from the Petition Date through the Effective Date.

Note 3—Fresh Start Accounting

Upon emergence from the bankruptcy proceedings, the Company adopted fresh start accounting ("Fresh Start Accounting") in accordance with ASC 852, which resulted in it becoming a new entity for financial reporting purposes. In accordance with ASC 852, the Company is required to adopt Fresh Start Accounting upon its emergence from bankruptcy because (1) the holders of the then existing common shares of the Predecessor received less than 50 percent of the new common shares of the Successor outstanding upon emergence and (2) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

Upon adoption of Fresh Start Accounting, the reorganization value derived from the enterprise value associated with the Plan was allocated to the Company's identifiable tangible and intangible assets and liabilities based on their estimated fair values (except for deferred income taxes), with the remaining excess reorganization value allocated to goodwill in accordance with FASB ASC Topic No. 805 - Business Combinations. Deferred income tax amounts were determined in accordance with FASB ASC Topic No. 740 - Income Taxes.

As a result of the adoption of Fresh Start Accounting and the effects of the implementation of the Plan, the Company's consolidated financial statements of the Successor are not and will not be comparable to the consolidated financial statements of the Predecessor.

The Company's consolidated financial statements and related footnotes are presented with a "black line" division, which emphasizes the lack of comparability between amounts presented as of and after May 4, 2024 and amounts presented for all prior periods. The Company's financial results for future periods following the application of Fresh Start Accounting will be different from historical trends and the differences may be material.

Reorganization Value

Under ASC 852, the Successor determined a value to be assigned to the equity of the emerging entity as of the Fresh Start Reporting Date. The disclosure statement associated with the Plan confirmed by the Bankruptcy Court indicates that the Debtors and parties to the Restructuring stipulated an enterprise value of \$825 million. Enterprise value represents the fair value of an entity's interest-bearing debt and stockholders' equity. The Company deemed it appropriate to use this \$825 million for financial reporting.

The following table reconciles the enterprise value to the estimated fair value of the Successor common stock as of the Fresh Start Reporting Date:

(In millions)	
Enterprise value	\$ 825.0
Less: Fair value of debt	(531.8)
Less: finance lease obligations (current and non-current)	(6.8)
Implied value of Successor common stock	<u>\$ 286.4</u>

The following table reconciles the enterprise value to the reorganization value of the Successor's assets to be allocated to the Company's individual assets as of the Fresh Start Reporting Date:

(In millions)	
Enterprise value	\$ 825.0
Plus: Fair value of non-debt current liabilities	454.7
Plus: Fair value of non-debt, non-current liabilities	635.8
Reorganization Value of Successor's Assets to be Allocated	<u>\$ 1,915.5</u>

Valuation Process

Under the application of Fresh Start Accounting, we conducted an analysis of the Consolidated Balance Sheet to determine if any of the Company's net assets would require a fair value adjustment as of the Fresh Start Reporting Date. The results of our analysis indicated that our principal assets, which include property, equipment, and leasehold improvements, right of use assets and related lease liabilities and our intangible assets would require a fair value adjustment on the Fresh Start Reporting Date. The remainder of the Company's net assets were determined to have carrying values that approximated fair value on the Fresh Start Reporting Date. Further details regarding the valuation process is described further below.

Property, equipment and leasehold improvements

These assets primarily consisted of leasehold improvements; furniture, fixtures and equipment; purchased software and computer equipment; and construction in progress. The Company primarily relied upon a cost approach to value these assets. The cost approach considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, and functional and economic obsolescence. Physical deterioration is an adjustment made in the cost approach to reflect the real operating age of an asset with regard to wear and tear, decay and deterioration that is not prevented by maintenance. Functional obsolescence is the loss in value or usefulness of an asset caused by inefficiencies or inadequacies of the asset, as compared to a more efficient or less costly replacement asset with newer technology. Economic obsolescence is the loss in value or usefulness of an asset due to factors external to the asset, such as the economics of the industry, reduced demand, increased competition or similar factors. The Company relied upon a market approach for computer equipment where a secondary market is readily available. The Company determined that the fair value of construction in progress approximated the historical carrying value.

JOANN trade name

The JOANN trade name was valued as an indefinite lived asset utilizing the multi period excess earnings method of the income approach, and corroborated with a relief from royalty method of the income approach. Significant inputs and assumptions include forecasted revenue streams, contributory asset charges, tax rates, and applicable discount rates.

Creativebug trade name

The Creativebug trade name was valued over a five-year life utilizing the relief from royalty method of the income approach. Significant inputs and assumptions include forecasted revenue streams, royalty rates, tax rates, and applicable discount rates.

Creativebug customer relationships

The Creativebug customer relationships were valued utilizing the multi period excess earnings method of the income approach. Significant inputs and assumptions include forecasted revenue streams, attrition rates, contributory asset charges, tax rates, and applicable discount rates.

Creativebug content

The Creativebug content was valued utilizing the cost to recreate method of the cost approach. Significant inputs and assumptions include costs incurred to date, life of content, margins and applicable discount rates.

Exit financing

To estimate the value of the Exit ABL Facility (as defined below), a discounted cash flow method was employed. The fair value of the Exit ABL Facility was estimated by analyzing the expected cash flows and discounting such cash flows at a rate of return that reflects the time value of money and credit risk of the Company. The concluded discount rate was based on the Company's credit rating and an analysis of comparable corporate debt instruments and their observed market yields.

Lease liabilities and right of use assets

Lease liabilities were estimated as the present value of the remaining lease payments at an incremental borrowing rate which was used as the discount rate in the analysis. Right of use asset values were estimated by adjusting the lease liability estimates with estimates of the off-market value of leases. For significant leases, off-market (or above/below market) value was estimated as the present value of the differential between contract rates and market rates over the remaining term of the lease.

Consolidated Condensed Balance Sheet

The adjustments included in the following fresh start consolidated condensed balance sheet as of May 4, 2024 reflect the effects of the transactions contemplated by the Plan and executed by the Company on the Fresh Start Reporting Date (reflected in the column "Reorganization Adjustments"), and fair value and other required accounting adjustments resulting from the adoption of Fresh Start Accounting (reflected in the column "Fresh Start Adjustments"). The explanatory notes provide additional information and significant assumptions with regard to the adjustments recorded and the methods used to determine fair values.

Consolidated Condensed Balance Sheet
(In millions)

	Predecessor	Reorganization Adjustments	(1)	Fresh Start Accounting Adjustments	Successor
Assets					
Current assets:					
Cash and cash equivalents	\$ 19.0	\$ (3.5)	(2)	\$ —	\$ 15.5
Restricted cash	14.0	(1.5)	(3)	—	12.5
Inventories	545.6	—		—	545.6
Prepaid expenses and other current assets	29.0	(3.2)	(4)	(0.6)	25.2
Total current assets	<u>607.6</u>	<u>(8.2)</u>		<u>(0.6)</u>	<u>598.8</u>
Property, equipment and leasehold improvements, net	223.3	—		92.6	315.9
Operating lease assets	722.7	—		13.6	736.3
Goodwill, net	17.6	—		55.3	72.9
Intangible assets, net	177.8	—		(21.1)	156.7
Other assets	39.2	(5.5)	(5)	1.2	34.9
Total assets	<u>\$ 1,788.2</u>	<u>\$ (13.7)</u>		<u>\$ 141.0</u>	<u>\$ 1,915.5</u>
Liabilities and Shareholders' Equity (Deficit)					
Current liabilities:					
Accounts payable	\$ 188.4	\$ —		\$ —	\$ 188.4
Accrued expenses	106.8	2.5	(6)	(1.1)	108.2
DIP Facility Participation Fees	279.2	(279.2)	(7)	—	—
Current portion of operating lease liabilities	168.9	—		(8.8)	160.1
Current portion of long-term debt	278.0	(276.5)	(8)	—	1.5
DIP Facility	153.8	(153.8)	(9)	—	—
Total current liabilities	<u>1,175.1</u>	<u>(707.0)</u>		<u>(9.9)</u>	<u>458.2</u>
Long-term debt, net	—	530.3	(10)	—	530.3
Long-term operating lease liabilities	661.1	—		(89.4)	571.7
Long-term deferred income taxes	11.7	9.1	(11)	23.9	44.7
Other long-term liabilities	24.0	—		0.2	24.2
Liabilities subject to compromise	773.8	(773.8)	(12)	—	—
Shareholders' equity (deficit):					
Predecessor common stock	0.4	(0.4)	(13)	—	—
Successor common stock	—	1.0	(14)	—	1.0
Predecessor additional paid-in capital	207.1	(11.3)	(15)	(195.8)	—
Successor additional paid-in capital	—	285.4	(16)	—	285.4
Retained (deficit)	(1,048.0)	636.0	(17)	412.0	—
Accumulated other comprehensive income	—	—		—	—
Treasury stock	(17.0)	17.0	(13)	—	—
Total shareholders' equity (deficit)	<u>(857.5)</u>	<u>927.7</u>		<u>216.2</u>	<u>286.4</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 1,788.2</u>	<u>\$ (13.7)</u>		<u>\$ 141.0</u>	<u>\$ 1,915.5</u>

Reorganization Adjustments

- (1) Represent amounts recorded as of the Fresh Start Reporting Date for the implementation of the Plan, including, among other items, settlement of the Predecessor's liabilities subject to compromise and issuances of the Successor's common shares.
- (2) Changes in cash and cash equivalents include the following (in millions):
- | | | |
|---|----|-------|
| Release of utilities cash collateral deposit | \$ | 1.5 |
| Payment of interest on the DIP Term Loans | | (1.7) |
| Payment of interest and fees on the FILO Loans | | (1.4) |
| Payment of interest and fees on the ABL Facility | | (1.3) |
| Payment of arrangement fee on the Exit ABL Facility | | (0.6) |
| Net change in cash and cash equivalents | \$ | (3.5) |
- (3) Represents the release of the utilities cash collateral deposit.
- (4) Changes in prepaid expenses and other current assets include the following (in millions):
- | | | |
|--|----|-------|
| Recognize expense for professional fees earned on the Effective Date | \$ | (2.5) |
| Reflects the elimination of the current portion of prepaid directors and officers insurance policies related to the Predecessor. | | (0.7) |
| Net change in prepaid expenses and other current assets | \$ | (3.2) |
- (5) Changes in other assets include the following (in millions):
- | | | |
|---|----|-------|
| Elimination of the long term portion of prepaid directors and officers insurance policies related to the Predecessor. | \$ | (2.7) |
| Write off Predecessor debt issuance costs on ABL Facility | | (3.4) |
| Capitalize arrangement fee paid on the Exit ABL Facility | | 0.6 |
| Net change in other assets | \$ | (5.5) |
- (6) Changes in accrued expenses include the following (in millions):
- | | | |
|---|----|-------|
| Accrue professional fees earned on the Effective Date | \$ | 6.9 |
| Payment of interest and fees on the FILO Loans | | (1.4) |
| Payment of accrued interest on the DIP Term Loans | | (1.7) |
| Payment of interest and fees on the ABL Facility | | (1.3) |
| Net change in accrued expenses | \$ | 2.5 |
- (7) Represents the issuance of Successor common stock to settle the DIP Facility Participation Fees.
- (8) Represents the settlement of ABL Claims with the issuance of the Exit ABL Facility (\$278.0) and the conversion of the DIP Term Loan into the Exit Term Loan due 2028 - current (\$1.5).
- (9) Represents the conversion of DIP Term Loan into the Exit Term Loan due 2028.
- (10) Changes in long-term debt, net include the following (in millions):
- | | | |
|--|----|-------|
| Issuance of the Exit ABL Facility to settle the ABL Claims | \$ | 278.0 |
| Conversion of DIP Term Loan into Exit Term Loan due 2028 (long-term) | | 152.3 |
| Issuance of Exit FILO Loans to settle FILO Loans | | 100.0 |
| Net change in long-term debt, net | \$ | 530.3 |
- (11) Represents the tax impacts of the Plan transactions.

- (12) Liabilities subject to compromise were settled in accordance with the Plan and the resulting gain was determined as follows (in millions):

Term Loan Claims	\$	658.1
FILO Claims		115.7
Liabilities Subject to Compromise	\$	773.8
Less: Distribution of Successor common stock to holders of Term Loan Claims		(7.1)
Less: Issuance of Exit FILO Loans to holders of FILO Claims		(100.0)
Gain on Settlement of Liabilities Subject to Compromise	\$	666.7

- (13) Represents the cancellation of Predecessor common stock at par value and treasury stock.
- (14) Reflects the par value of Successor common stock issued to satisfy the DIP Facility Participation Fees and to holders of the Term Loan Claims.
- (15) Net change in Predecessor additional paid-in capital includes the following (in millions):

Acceleration of the vesting of Predecessor equity awards upon the Effective Date	\$	5.3
Cancellation of Predecessor common shares at par value		0.4
Cancellation of Predecessor treasury stock		(17.0)
Net change in Predecessor additional paid-in capital	\$	(11.3)

- (16) Represents additional paid-in-capital associated with the issuance of Successor common stock to satisfy the DIP Facility Participation Fees (\$278.3) and to holders of the Term Loan Claims (\$7.1).

- (17) Net change in retained (deficit) includes the following (in millions):

Gain on Settlement of Liabilities Subject to Compromise	\$	666.7
Professional fees incurred on the Effective Date		(9.4)
Acceleration of the vesting of Predecessor equity awards upon the Effective Date		(5.3)
Elimination of prepaid directors and officers insurance policies related to the Predecessor		(3.5)
Write-off debt issuance costs for prepetition ABL Facility		(3.4)
Income taxes		(9.1)
Net change in retained (deficit)	\$	636.0

Fresh Start Accounting Adjustments

Amounts presented for "Predecessor Historical Value" represents the carrying value of the asset/liability prior to the implementation of the Plan.

- (18) Changes in prepaid expenses and other current assets reflects the fair value adjustment for subscription-based content due to the adoption of Fresh Start Accounting.
- (19) Changes in property, equipment and leasehold improvements, net includes the following:

(In millions)	Successor Fair Value	Predecessor Historical Value
Furniture, fixtures and equipment	\$ 107.5	\$ 364.7
Purchased software and computer equipment	30.4	85.0
Leasehold improvements	160.9	429.6
Construction in progress	10.3	10.5
Finance lease assets	6.8	12.8
	\$ 315.9	\$ 902.6
Less accumulated depreciation and amortization	—	(679.3)
Property, equipment and leasehold improvements, net	\$ 315.9	\$ 223.3

- (20) Changes in operating lease assets reflects the fair value adjustment to right of use assets for the Fresh Start Reporting Date incremental borrowing rate and an adjustment for below market leases.
- (21) Reflects adjustment to goodwill for the excess of the reorganization value of assets over the fair value of identifiable tangible and intangible assets.

- (22) Changes in intangible assets, net reflects fair value adjustments due to the adoption of Fresh Start Accounting.

(In millions)	Successor Fair Value	Predecessor Gross Carrying Amount
Indefinite-lived intangible assets:		
JOANN trade name	\$ 155.0	\$ 148.0
Joann.com domain name	—	10.0
Intangible assets subject to amortization:		
Creativebug trade name	0.4	0.1
Technology	—	5.3
Customer relationships	1.3	110.0
	\$ 156.7	\$ 273.4
Less accumulated amortization	—	(95.6)
Total intangible assets	\$ 156.7	\$ 177.8

- (23) Changes in other assets reflects fair value adjustments due to the adoption of Fresh Start Accounting shown below (in millions):

Subscription-based content	\$ 2.8
Investment in Glowforge	(1.6)
Net change in other assets	\$ 1.2

- (24) Changes in accrued expenses reflects the adjustment to operating lease liabilities (\$0.3) and finance lease obligations (\$0.8) to reflect the Fresh Start Reporting Date incremental borrowing rate.
- (25) Changes in current portion of operating lease liabilities reflects the Fresh Start Reporting Date incremental borrowing rate.
- (26) Adjustment to long-term portion of operating lease liabilities reflects the Fresh Start Reporting Date incremental borrowing rate.
- (27) Represents the adjustment to deferred tax balances as a result of adopting Fresh Start Accounting.
- (28) Changes in other long-term liabilities reflects the elimination of the deferred gain on sale of Visalia (\$0.2 decrease) and change in finance lease liabilities (\$0.4 increase) to reflect the Fresh Start Reporting Date incremental borrowing rate.
- (29) Reflects the cumulative impact of Fresh Start Accounting adjustments discussed above and the elimination of Predecessor additional paid-in capital and Predecessor retained (deficit), shown below (in millions):

Property, equipment and leasehold improvements, net	\$ 92.6
Goodwill	55.3
Long-term operating lease liabilities	89.4
Operating lease assets	13.6
Current portion of operating lease liabilities	8.8
Other assets	1.2
Accrued expenses	1.1
Intangible assets, net	(21.1)
Prepaid expenses and other current assets	(0.6)
Other long-term liabilities	(0.2)
Fresh start valuation gain / (loss)	\$ 240.1
Provision (Benefit) for Income Taxes	(23.9)
Elimination of retained deficit to Predecessor additional paid-in-capital	195.8
Net change in retained (deficit)	\$ 412.0

Note 4—Financing

Long-term debt consisted of the following:

(In millions)	Successor	Predecessor	
	August 3, 2024	July 29, 2023	February 3, 2024
ABL Facility	\$ —	\$ 352.0	\$ 308.5
Exit ABL Facility	367.5	—	—
Term Loan due 2028	—	663.2	658.1
Exit Term Loan due 2028	153.8	—	—
FILO Loans	—	100.0	100.0
Exit FILO Loans	100.0	—	—
Total debt	621.3	1,115.2	1,066.6
Less unamortized discount and debt costs	—	(13.7)	(12.3)
Total debt, net	621.3	1,101.5	1,054.3
Less current portion of debt	(1.6)	(6.8)	(6.8)
Long-term debt, net	\$ 619.7	\$ 1,094.7	\$ 1,047.5

ABL Facility

On October 21, 2016, the Company entered into a senior secured asset based revolving credit facility (as amended from time to time, the "ABL Facility"), which originally provided for senior secured financing of up to \$400.0 million, subject to a borrowing base, maturing on October 20, 2021. On November 25, 2020, the Company entered into an agreement to amend various terms of the ABL Facility, which provided for senior secured financing of up to \$500.0 million, subject to a borrowing base, maturing on November 25, 2025.

On December 22, 2021, the Company entered into an agreement to amend various terms of the ABL Facility, which provides for senior secured financing of up to \$500.0 million, subject to a borrowing base, maturing on December 22, 2026. No changes were made to the borrowing base formula. The ABL Facility is secured by a first priority security interest in JOANN's inventory, accounts receivable and related assets with a second priority interest in all other assets, excluding real estate. It also continues to be guaranteed by existing and future wholly-owned subsidiaries of JOANN, subject to certain exceptions.

As further described under FILO Loans below, on March 10, 2023, the Company entered into a third amendment to the ABL Facility (the "Third Amendment"). As amended by the Third Amendment, the ABL Facility base rate loans bear an additional margin of 1.00% when average historical excess capacity is less than 33.33% of the maximum credit, 0.75% when average historical excess capacity is greater than 33.33% but less than 66.67% of the maximum credit, and 0.50% when average historical excess capacity is greater than or equal to 66.67% of the maximum credit. Prior to March 10, 2023, under the ABL Facility, the base rate loans bore an additional margin of 0.50% when average historical excess capacity is less than 40.00% of the maximum credit and 0.25% when average historical excess capacity is greater than or equal to 40.00% of the maximum credit.

The Third Amendment also replaced the London Inter-Bank Offered Rate ("LIBOR") as the interest rate benchmark under the credit agreement with the forward-looking term rate based on the Secured Overnight Financing Rate ("SOFR"). Term SOFR loans, previously Eurodollar rate loans, bear an additional margin of 2.00% when average historical excess capacity is less than 33.33% of the maximum credit, 1.75% when average historical excess capacity is greater than 33.33% but less than 66.67% of the maximum credit, and 1.50% when average historical excess capacity is greater than or equal to 66.67% of the maximum credit. Eurodollar rate loans bore an additional margin of 1.50% when average historical excess capacity is less than 40.00% of the maximum credit and 1.25% when average historical excess capacity is greater than or equal to 40.00% of the maximum credit. Unused commitment fees on the ABL Facility are calculated based on a rate of 0.20% per annum. During the first quarter of fiscal 2024, the LIBOR ceased to be the interest rate benchmark and SOFR became the LIBOR successor rate. The Company has the option to request an increase in the size of the ABL Facility up to \$150.0 million (for a total facility of \$650.0 million) in increments of not less than \$20.0 million, provided that no default exists or would arise from the increase. However, the lenders under the ABL Facility are under no obligation to provide any such additional amounts.

On the Effective Date, the Company entered into the Exit ABL Credit Agreement, which amended the ABL Facility (the "Exit ABL Facility"), extending the maturity date of the ABL Facility by six months and increasing the interest rate applicable to borrowings under the asset-based credit facility by 1.00% per annum. As amended by the Exit ABL Credit Agreement, the Exit ABL Facility provides for senior secured financing of up to \$500.0 million, subject to a borrowing base, maturing on June 22, 2027. The Term SOFR loans, as amended, bear an additional margin of 3.00% when average historical excess capacity is less than 33.33% of the maximum credit, 2.75% when average historical excess capacity is greater than 33.33% but less than 66.67% of the maximum credit, and 2.50% when average historical excess capacity is greater than or equal to 66.67% of the maximum credit.

As of August 3, 2024, there were \$367.5 million of borrowings on the Exit ABL Facility, and the Company's outstanding letters of credit obligation was \$20.9 million. As of August 3, 2024, the Company's excess availability on the Exit ABL Facility was \$53.8 million. During the second quarter of fiscal 2025, the weighted average interest rate for borrowings under the Exit ABL Facility was 8.65%, compared to 7.41% for the second quarter of fiscal 2024. As of July 29, 2023, the Company had \$352.0 million of borrowings on the ABL Facility, and the Company's outstanding letters of credit obligation was \$18.4 million. As of July 29, 2023, the Company's excess availability on the ABL Facility was \$58.4 million.

FILO Loans

On March 10, 2023 (the "Closing Date"), the Company entered into the Third Amendment to the ABL Facility. The Third Amendment, among other things, adds a series of first-in last-out loans (the "FILO Loans") in an aggregate amount of \$100.0 million, the full amount of which was drawn on the Closing Date and a portion of which proceeds were used, among other things, to refinance a portion of the revolving loans drawn and outstanding under the ABL Facility immediately prior to the Closing Date. The FILO Loans are secured by a subordinate priority security to the ABL Facility interest in JOANN's inventory, accounts receivable and related assets with a second priority interest in all other assets, excluding real estate. The FILO Loans are guaranteed by existing and future wholly-owned subsidiaries of JOANN, subject to certain exceptions.

The FILO Loans and the revolving commitments under the credit agreement (the "Revolving Commitments") mature on June 22, 2027. The FILO Loans will not amortize. The FILO Loans are SOFR loans (as defined in the Third Amendment), that bear monthly interest at an annual rate of 9.75% with one 100 basis point stepdown based on minimum Consolidated EBITDA (as defined in the Third Amendment) and are subject to a SOFR floor of 1.50%.

The Third Amendment also amends the credit agreement to (i) include certain trade receivables in the borrowing base, (ii) provide that loans drawn pursuant to the Revolving Commitments may be made at JOANN's election as base rate loans or SOFR loans and (iii) increases the applicable margin for SOFR loans to 2.00% with two twenty-five basis point step-downs based on excess availability. Revolving loans made in SOFR are subject to a credit spread adjustment of 0.10% and a floor of 0.00%.

On the Effective Date, the Company entered into the Exit ABL Credit Agreement which amended the FILO Loans (the "Exit FILO Loans"), by extending the maturity date of the FILO Loans by six months. The amended Exit FILO Loans adds a series of first-in last out loans in an aggregate amount of \$100.0 million.

Other than the changes described above, all other material provisions of the credit agreement remain unchanged and as previously disclosed.

Term Loan Due 2028

On July 7, 2021, the Company entered into the Amendment No. 2 ("Amendment No. 2") to the credit agreement, dated as of October 21, 2016. Amendment No. 2, among other things, provided for a new \$675 million incremental first-lien term loan credit facility with a maturity date of July 7, 2028 (the "Term Loan due 2028"). The Term Loan due 2028 was issued at 99.5% of face value and was used to refinance the Company's outstanding first-lien term loan credit facility due 2023 as well as to reduce amounts borrowed under the ABL Facility and pay related fees and expenses. Amendment No. 2 reduced the applicable interest rates for Eurodollar rate loans and base rate loans from 5.00% and 4.00% to 4.75% and 3.75%, respectively, and reduced the LIBOR floor from 1.00% to 0.75%.

In accordance with the Plan, on the Effective Date, the Term Loan due 2028 was cancelled. See Note 2 - Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code and Note 3 - Fresh Start Accounting for further details. A gain was recognized relating to the termination of interest swaps, reducing the weighted average interest rate from 10.24% to (8.15%). During the second quarter of fiscal 2025, the weighted average interest rate for borrowings under the Term Loan due 2028 was zero, due to the cancellation of the debt, compared to 10.17% during the second quarter of fiscal 2024.

DIP Facility and Exit Term Loan Due 2028

On March 19, 2024, the Company entered into the DIP Credit Agreement, which provided a secured term loan credit facility in aggregate principal amount of up to \$142.0 million. The DIP Facility provided for three tranches of term loans. On the Effective Date, the Company entered into an exit term loan credit agreement (the "Exit Term Loan Credit Agreement") with the lenders under the DIP Term Loans, providing for approximately \$153.8 million aggregate principal amount of exit term loans comprised of converted DIP Term Loans in the same aggregate principal amount (plus accrued interest and fees payable in kind, if any) based on amounts outstanding under the DIP Facility on the Effective Date. The Exit Term Loan due 2028 bears interest at a percentage per annum equal to SOFR plus 9.50% and matures on April 30, 2028. See Note 2 - Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code and Note 3 - Fresh Start Accounting for further details.

Covenants

The Exit Term Loan Credit Agreement includes conditions precedent, representations and warranties, affirmative and negative covenants and events of default that are customary for financings of this type and size. Events of default include both credit and non-credit events such as a change of control, nonpayment of principal or interest, etc. In the event of a default, the Lenders may declare the outstanding amounts immediately due and payable.

Note 5—Derivative Instruments

The Company is exposed to certain market risks during the normal course of its business arising from adverse changes in interest rates. The Company's exposure to interest rate risk results primarily from its variable-rate borrowings. The Company may selectively use derivative financial instruments to manage the risks from fluctuations in interest rates. The Company does not purchase or hold derivatives for trading or speculative purposes. Fluctuations in interest rates can be volatile, and the Company's risk management activities do not totally eliminate these risks. Consequently, these fluctuations could have a significant effect on the Company's financial results.

Interest Rate Swaps

In August 2021, the Company entered into an interest rate swap agreement with U.S. Bank N.A., which has a \$200 million notional value with an effective date of October 26, 2023 and a maturity date of October 26, 2025. Beginning in January 2024, the Company receives 1-month, 3-month or 6-month LIBOR, at the Company's election, subject to a 0.75% floor, and pays a fixed rate of interest of 1.44% per annum on a quarterly basis. In connection with the execution of the interest rate swap agreement, no cash was exchanged between the Company and the counterparty. In June 2023, an amendment replaced LIBOR as the floating rate option under the swap agreement with the forward-looking term rate based on SOFR.

In May 2022, the Company entered into a second interest rate swap agreement with U.S. Bank N.A., which has a \$250 million notional value with an effective date of July 26, 2023 and a maturity date of January 26, 2026. Beginning in October 2023, the Company receives 1-month, 3-month or 6-month LIBOR, at the Company's election, subject to a 0.75% floor, and pays a fixed rate of interest of 3.37% per annum on a quarterly basis. In connection with the execution of the interest rate swap agreement, no cash was exchanged between the Company and the counterparty. In June 2023, an amendment replaced LIBOR as the floating rate option under the swap agreement with the forward-looking term rate based on SOFR.

All of the Company's derivative financial instruments are eligible for netting arrangements that allow the Company and its counterparties to net settle amounts owed to each other. Derivative assets and liabilities that can be net settled under these arrangements have been presented in the Company's Consolidated Balance Sheet on a net basis. As of February 3, 2024, none of the netting arrangements involved collateral.

The Company designated its interest rate swaps as cash flow hedges and structured them to be highly effective. Unrealized gains and losses related to the fair value of the interest rate swaps are recorded to accumulated other comprehensive income (loss), net of tax. In the event of early termination of the interest rate swaps, the Company will receive from or pay to the counterparty the fair value of the interest rate swap agreements, and the unrealized gain or loss outstanding will be recognized in earnings.

On January 5, 2024, the Company entered into an agreement to terminate the swaps for \$18.1 million in proceeds, which was comprised of the termination of the \$200 million notional value swap for \$12.2 million and the termination of the \$250 million notional value swap for \$5.9 million.

Upon termination of the swaps, the Company recorded a \$7.2 million fair value adjustment to the deferred gain in Accumulated other comprehensive income. As of February 3, 2024, the remaining unamortized gain for the interest rate swaps of \$10.9 million, after tax, was excluded from the assessment of effectiveness and will be amortized to interest expense on a straight-line basis through January 26, 2026. In connection with the Company's emergence from Chapter 11 proceedings, the remaining unamortized gain, that was to be amortized, was fully recognized in interest expense. Due to the termination of the swaps, there was no amount receivable from the swap counterparty at February 3, 2024, and the fair value of the interest rate swaps as of February 3, 2024 was \$0.0 million.

The impacts of the Company's derivative instruments on the accompanying Consolidated Statements of Comprehensive Income (Loss) for the thirteen weeks ended August 3, 2024 and July 29, 2023 are presented in the table below:

	Successor Thirteen Weeks Ended August 3, 2024	Predecessor Thirteen Weeks Ended July 29, 2023
(In millions)		
Interest rate swap - \$200M notional amount	\$ —	\$ 3.7
Interest rate swap - \$250M notional amount	—	4.9
Gain recognized in other comprehensive income (loss), gross of income taxes	\$ —	\$ 8.6

The impacts of the Company's derivative instruments on the accompanying Consolidated Statements of Comprehensive Income (Loss) for the thirteen weeks ended August 3, 2024 and May 4, 2024 and twenty-six weeks ended July 29, 2023 are presented in the table below:

(In millions)	Successor	Predecessor	
	Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	August 3, 2024	May 4, 2024	July 29, 2023
Interest rate swap - \$200M notional amount	\$ —	\$ —	\$ 4.1
Interest rate swap - \$250M notional amount	—	—	5.6
Gain recognized in other comprehensive income (loss), gross of income taxes	\$ —	\$ —	\$ 9.7

Note 6—Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and

Level 3 – Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

The valuations of the Company's interest rate derivatives are measured as the present value of all expected future cash flows based on SOFR-based yield curves. The present value calculation uses discount rates that have been adjusted to reflect the credit quality of the Company and its counterparty which is a Level 2 fair value measurement. The carrying and fair value of the Company's interest rate derivatives were as follows:

(In millions)		Successor August 3, 2024	Predecessor July 29, 2023
Instrument	Balance Sheet Location		
Interest rate swaps - current	Prepaid expenses and other current assets	\$ —	\$ 11.0
Interest rate swaps - long-term	Other assets	\$ —	\$ 9.8

The fair values of cash and cash equivalents, accounts payable and borrowings on the Company's ABL Facility approximated their carrying values because of the short-term nature of these instruments. If these instruments were measured at fair value in the financial statements, they would be classified as Level 1 in the fair value hierarchy.

Long-term debt is presented at carrying value in the Company's Consolidated Balance Sheets. The fair value of the Company's Exit Term Loan due 2028 was determined based on quoted market prices or recent trades of this debt instrument in less active markets. If the Company's long-term debt was recorded at fair value, it would be classified as Level 2 in the fair value hierarchy. The following provides the carrying and fair value of the Company's Term Loan due 2028 and Exit Term Loan due 2028 as of August 3, 2024 and July 29, 2023:

(In millions)	Successor August 3, 2024		Predecessor July 29, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Term Loan due 2028 (a)	\$ —	\$ —	\$ 655.9	\$ 323.9
Exit Term Loan due 2028	\$ 153.8	\$ 153.8	\$ —	\$ —

(a) Net of deferred financing costs and original issue discount.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The fair values are determined based on either a market approach, an income approach, in which the Company utilizes internal cash flow projections over the life of the underlying assets discounted using a discount rate that is considered to be commensurate with the risk inherent in the Company's current business model, or a combination of both. These measures of fair value and related inputs are considered a Level 3 approach under the fair value hierarchy.

The Company uses the end of the period when determining the timing of transfers between levels. There were no transfers between levels during the periods presented.

Refer to Note 3 for further detail regarding the Company's fair value adjustments related to Fresh Start Accounting.

Note 7—Goodwill and Other Intangible Assets

The carrying amount of goodwill at August 3, 2024 and July 29, 2023 was as follows:

(In millions)	Successor August 3, 2024	Predecessor July 29, 2023
Goodwill, gross	\$ 72.9	\$ 643.8
Accumulated impairment	—	(481.8)
Goodwill, net	\$ 72.9	\$ 162.0

The carrying amount and accumulated amortization of identifiable intangible assets at August 3, 2024 and July 29, 2023 were as follows:

(In millions)	Successor August 3, 2024			Predecessor July 29, 2023		
	Estimated Weighted Average Life in Years	Gross Carrying Amount	Accumulated Amortization	Estimated Life in Years	Gross Carrying Amount	Accumulated Amortization
Indefinite-lived intangible assets:						
JOANN trade name	—	\$ 155.0	\$ —	—	\$ 230.0	\$ —
Joann.com domain name	—	—	—	—	10.0	—
Intangible assets subject to amortization:						
Creativebug trade name	10	0.4	—	10	0.1	(0.1)
Technology	—	—	—	3	5.3	(2.5)
Customer relationships	7.3	1.3	0.1	16	110.0	(85.0)
Total intangible assets		\$ 156.7	\$ 0.1		\$ 355.4	\$ (87.6)

The Company recognized intangible asset amortization of \$0.1 million and \$2.2 million for the thirteen weeks August 3, 2024 and July 29, 2023, respectively and \$4.3 million for the twenty-six weeks ended July 29, 2023. The weighted average amortization period of amortizable intangible assets as of August 3, 2024 approximated 7.7 years.

Note 8—Income Taxes

Effective Tax Rate

The effective income tax rate for the second quarter of fiscal 2025 was 0.0%. The effective tax rate was less than the federal statutory rate due to tax impacts related to the usage of net operating losses that were removed during the Company's reorganization and fresh-start adjustments.

The effective tax rate is subject to change based on the mix of income from different state jurisdictions, which have different tax rates, as well as the change in status or outcome of uncertain tax positions. The Company evaluates its effective tax rate on a quarterly basis and updates its estimate of the full-year effective rate as necessary.

Reserves for Uncertain Tax Positions

At the end of the second quarter of fiscal 2025, the Company's uncertain tax positions were \$0.9 million, of which \$0.7 million would affect the effective tax rate, if recognized. Within the next 12 months, it is reasonably possible that uncertain tax positions could

be reduced by approximately \$0.1 million resulting from resolution or closure of tax examinations. Any increase in the amount of uncertain tax positions within the next 12 months is expected to be insignificant.

The Company records interest and penalties on uncertain tax positions as a component of the income tax provision. The total amount of interest and penalties accrued at the end of the second quarter of fiscal 2025 was \$0.1 million.

Note 9—Segments and Disaggregated Revenue

The Company conducts its business activities and reports financial results as one operating segment and one reportable segment, which includes the Company's store locations and integrated omni-channel operations. Due to its integrated omni-channel strategy, the Company views omni-channel sales as an extension of its physical store locations. The presentation of financial results as one reportable segment is consistent with the way the Company operates its business and is consistent with the manner in which the Chief Operating Decision Maker ("CODM") makes decisions about allocating resources and assessing performance. Furthermore, the Company notes that monitoring financial results as one reportable segment helps the CODM manage costs on a consolidated basis, consistent with the integrated nature of its operations.

The following table shows revenue by product category:

	Successor Thirteen Weeks Ended August 3, 2024	Predecessor Thirteen Weeks Ended July 29, 2023
(In millions)		
Sewing	192.3	\$ 215.6
Arts and Crafts and Home Décor	214.0	231.4
Other	3.8	6.8
Total	\$ 410.1	\$ 453.8

	Successor Thirteen Weeks Ended August 3, 2024	Thirteen Weeks Ended May 4, 2024	Predecessor Twenty-Six Weeks Ended July 29, 2023
(In millions)			
Sewing	\$ 192.3	\$ 216.8	\$ 445.4
Arts and Crafts and Home Décor	214.0	232.9	470.4
Other	3.8	5.3	16.1
Total	\$ 410.1	\$ 455.0	\$ 931.9

Note 10—Commitments and Contingencies

The Company is involved in various litigation matters in the ordinary course of its business. The Company is not currently involved in any litigation that it expects, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and the related notes thereto included elsewhere in this Quarterly Report and the audited Consolidated Financial Statements and the related notes thereto and the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report for the fiscal year ended February 3, 2024. Some of the information included in this discussion and analysis or set forth elsewhere in this Quarterly Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Summary Risk Factors" section in this Quarterly Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Our fiscal year ends on the Saturday closest to January 31 and refers to the year in which the period ends (e.g., fiscal 2024 refers to the year ended February 3, 2024). Fiscal years consist of 52 weeks, unless noted otherwise. Fiscal 2024 consisted of 53 weeks and ended on February 3, 2024. The fiscal quarters ended August 3, 2024 and July 29, 2023 were both comprised of 13 weeks.

JOANN Overview

JOANN is the nation's category leader in Sewing with one of the largest assortments of arts and crafts products. As a well-established and trusted brand for over 80 years, we believe we have a deep understanding of our customers, what inspires their creativity and what fuels their incredibly diverse projects. In order to best serve our customers, JOANN has transformed itself into a fully-integrated, digitally-connected omni-channel retailer that provides Creative Products to our customers whenever and however they want.

Highlights for the Thirteen Weeks Ended August 3, 2024

- Net sales decreased 9.6% compared to the second quarter of fiscal 2024, to \$410.1 million, with total comparable sales decreasing 8.7%, which compares to a 2.0% decrease in comparable sales for the same period in the prior fiscal year.
- Gross profit decreased 15.4% compared to the second quarter of fiscal 2024, to \$196.3 million, at a rate to net sales of 47.9%, which was a 320 basis point decrease compared to the same period in the prior fiscal year.
- Net loss was \$92.3 million in the second quarter of fiscal 2025, compared to net loss of \$73.3 million in the same period in the prior fiscal year.

Total Comparable Sales

Total comparable sales are an important measure throughout the retail industry. This measure allows us to evaluate how our store location base and e-commerce business are performing by measuring the change in period-over-period net sales in store locations that have been open for the applicable period. We define total comparable sales as net sales for store locations that have been open for at least 13 months and have not been relocated, expanded or downsized in the last 13 months. In addition, total comparable sales include our e-commerce sales generated via joann.com (online sales for all products) and creativebug.com (online sales of digital videos for crafting projects). There may be variations in the way in which some of our competitors and other retailers calculate comparable sales. As a result, data in this Quarterly Report regarding our total comparable sales may not be comparable to similar data made available by other retailers.

Non-GAAP Financial Measures

Adjusted EBITDA

We present Adjusted EBITDA, which is not a recognized financial measure under GAAP, because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Management believes Adjusted EBITDA is helpful in highlighting trends in our core operating performance compared to other measures, which can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We also use Adjusted EBITDA in connection with establishing discretionary annual incentive compensation; supplementing GAAP measures of performance in the evaluation of the effectiveness of our business strategies; making budgeting decisions; and comparing our performance against that of other peer companies using similar measures.

We define Adjusted EBITDA as net income (loss) plus income tax provision (benefit), interest expense, net and depreciation and amortization, further adjusted to eliminate the impact of certain non-cash items and other items that we do not consider indicative of our ongoing operating performance, including other amortization, costs related to non-recurring events, costs related to reorganization items, Chapter 11 expenses, costs related to strategic initiatives, excess import freight, technology development expenses, stock-based compensation expense, gains and losses on disposal and impairment of fixed and operating lease assets, income and losses from equity

method investments, non-recurring employee-related costs and other one-time costs. Our adjustments include, as a separate line item, excess import freight costs.

Adjusted EBITDA has its limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in our cash requirements for our working capital needs;
- Adjusted EBITDA does not reflect the interest expense and the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect cash requirements for replacement of assets that are being depreciated and amortized;
- Adjusted EBITDA does not reflect non-cash compensation, which is a key element of our overall long-term incentive compensation;
- Adjusted EBITDA does not reflect the impact of certain cash charges or cash receipts resulting from matters we do not find indicative of our ongoing operations; and
- Adjusted EBITDA may be calculated differently by other companies in our industry, such that its usefulness may be limited as a comparative measure.

We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as supplemental information.

The following is a reconciliation of our net income (loss) to Adjusted EBITDA for the periods presented:

	Successor Thirteen Weeks Ended August 3, 2024	Predecessor Thirteen Weeks Ended July 29, 2023
(In millions)		
Net (loss)	\$ (92.3)	\$ (73.3)
Income tax (benefit)	—	(11.5)
Interest expense, net	16.9	26.8
Depreciation and amortization	16.4	18.9
EBITDA	(59.0)	(39.1)
Other amortization (1)	0.9	1.0
Strategic initiatives (2)	5.1	6.3
Excess import freight costs (3)	—	0.3
Technology development expense (4)	0.5	1.9
Stock-based compensation expense	—	1.5
Loss on disposal and impairment of fixed and operating lease assets	0.1	2.8
Loss from equity method investments	—	1.2
Non-recurring employee-related costs (5)	1.4	2.6
Fresh Start Accounting driven non-cash lease expense (6)	6.4	—
Other (7)	1.4	(0.4)
Adjusted EBITDA	\$ (43.2)	\$ (21.9)

- (1) "Other amortization" represents amortization of content and capitalized cloud-based system implementation costs.
- (2) "Strategic initiatives" represents non-recurring costs, such as third-party consulting costs and one-time start-up costs, that are not part of our ongoing operations and are incurred to execute differentiated, project-based strategic initiatives.
- (3) "Excess import freight costs" represents excess inbound freight costs (compared to our standard costs based on recently negotiated carrier rates) due to increased freight rates, in particular the significant transitory impact of constrained ocean freight capacity and incremental domestic transportation costs incurred due to unprecedented congestion in U.S. ports arising from surging market demand for shipping capacity as economies recovered from the COVID-19 pandemic.
- (4) "Technology development expense" represents one-time IT project management and implementation expenses, such as temporary labor costs, third-party consulting fees and user fees incurred during the development period of a new software application, that are not part of our ongoing operations and are typically redundant during the initial implementation of software applications or other technology systems across different functional operations of our business before they are in productive use.
- (5) "Non-recurring employee-related costs" represents the one-time impact of employee severance, employee recruitment and employee transition costs.
- (6) "Fresh Start Accounting driven non-cash lease expense" represents the impact of the market rate adjustment, step-up revaluation and landlord allowance reset upon emergence from Chapter 11.
- (7) "Other" represents the one-time impact of certain legal matters and other asset disposals and impairments.

	Successor	Predecessor	
	Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended
(In millions)	August 3, 2024	May 4, 2024	July 29, 2023
Net income (loss)	\$ (92.3)	\$ 462.4	\$ (127.5)
Income tax provision (benefit)	—	34.4	(19.3)
Interest expense, net	16.9	8.0	52.1
Depreciation and amortization	16.4	16.6	39.2
EBITDA	(59.0)	521.4	(55.5)
Other amortization (1)	0.9	0.8	1.7
Non-recurring items (8)	—	1.3	—
Reorganization items, net (9)	—	(551.5)	—
SG&A Chapter 11 costs (10)	—	12.6	—
Strategic initiatives (2)	5.1	1.4	9.9
Excess import freight costs (3)	—	—	4.2
Technology development expense (4)	0.5	0.6	3.6
Stock-based compensation expense	—	0.4	6.8
Loss on disposal and impairment of fixed and operating lease assets	0.1	4.1	3.4
Loss from equity method investments	—	0.2	3.7
Non-recurring employee-related costs (5)	1.4	1.4	3.5
Fresh Start Accounting driven non-cash lease expense (6)	6.4	—	—
Other (7)	1.4	2.9	0.3
Adjusted EBITDA	\$ (43.2)	\$ (4.4)	\$ (18.4)

- (1) "Other amortization" represents amortization of content and capitalized cloud-based system implementation costs.
- (2) "Strategic initiatives" represents non-recurring costs, such as third-party consulting costs and one-time start-up costs, that are not part of our ongoing operations and are incurred to execute differentiated, project-based strategic initiatives.
- (3) "Excess import freight costs" represents excess inbound freight costs (compared to our standard costs based on recently negotiated carrier rates) due to increased freight rates, in particular the significant transitory impact of constrained ocean freight capacity and incremental domestic transportation costs incurred due to unprecedented congestion in U.S. ports arising from surging market demand for shipping capacity as economies recovered from the COVID-19 pandemic.
- (4) "Technology development expense" represents one-time IT project management and implementation expenses, such as temporary labor costs, third-party consulting fees and user fees incurred during the development period of a new software application, that are not part of our ongoing operations and are typically redundant during the initial implementation of software applications or other technology systems across different functional operations of our business before they are in productive use.
- (5) "Non-recurring employee-related costs" represents the one-time impact of employee severance, employee recruitment and employee transition costs.
- (6) "Fresh Start Accounting driven non-cash lease expense" represents the impact of the market rate adjustment, step-up revaluation and landlord allowance reset upon emergence from Chapter 11.
- (7) "Other" represents the one-time impact of certain legal matters and other asset disposals and impairments.
- (8) "Non-recurring items" represents the loss recognized on the Ditto acquisition.
- (9) "Reorganization items, net" represents non-recurring costs related to the Company's reorganization, as described in Note 2 - Emergence from Voluntary Reorganization under Chapter 11 of the Bankruptcy Code above.
- (10) "SG&A Chapter 11 costs" represents non-recurring professional fees and retention bonuses related to the Chapter 11 filings, which were incurred prior to the filing date.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated. The following discussion should be read in conjunction with our Consolidated Financial Statements and related notes.

Consolidated Income Data:

(In millions)	Successor	Predecessor
	Thirteen Weeks Ended August 3, 2024	Thirteen Weeks Ended July 29, 2023
Net sales	\$ 410.1	\$ 453.8
Gross profit	196.3	232.0
SG&A expenses	255.3	269.9
Operating (loss)	(75.4)	(56.8)
Net (loss)	(92.3)	(73.3)

(In millions)	Successor	Predecessor	Predecessor
	Thirteen Weeks Ended August 3, 2024	Thirteen Weeks Ended May 4, 2024	Twenty-Six Weeks Ended July 29, 2023
Net sales	\$ 410.1	\$ 455.0	\$ 931.9
Gross profit	196.3	223.7	481.0
SG&A expenses	255.3	252.3	532.8
Operating (loss)	(75.4)	(45.2)	(91.0)
Net income (loss)	(92.3)	462.4	(127.5)

Other Operational Data:

(In millions)	Successor	Predecessor
	Thirteen Weeks Ended August 3, 2024	Thirteen Weeks Ended July 29, 2023
Total (decrease) in comparable sales vs. prior year	(8.7)%	(2.0)%
Gross margin	47.9%	51.1%
SG&A expenses as a % of net sales	62.3%	59.5%
Operating (loss) as a % of net sales	(18.4)%	(12.5)%
Adjusted EBITDA (1)	\$ (43.2)	\$ (21.9)
Adjusted EBITDA as a % of net sales	(10.5)%	(4.8)%
Total store location count at end of period	801	829

(1) See "Non-GAAP Financial Measures" for a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income (loss).

(In millions)	Successor	Predecessor	
	Thirteen Weeks Ended August 3, 2024	Thirteen Weeks Ended May 4, 2024	Twenty-Six Weeks Ended July 29, 2023
Total (decrease) in comparable sales vs. prior year	(8.7)%	(3.1)%	(3.1)%
Gross margin	47.9%	49.2%	51.6%
SG&A expenses as a % of net sales	62.3%	55.5%	57.2%
Operating (loss) as a % of net sales	(18.4)%	(9.9)%	(9.8)%
Adjusted EBITDA (1)	\$ (43.2)	\$ (4.4)	\$ (18.4)
Adjusted EBITDA as a % of net sales	(10.5)%	(1.0)%	(2.0)%
Total store location count at end of period	801	804	829

(1) See "Non-GAAP Financial Measures" for a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income (loss).

Comparison of the Thirteen Weeks ended August 3, 2024 and July 29, 2023***Net Sales***

Net sales were \$410.1 million for the thirteen weeks ended August 3, 2024, a decrease of \$43.7 million or 9.6% compared to the same period in fiscal 2024. Total comparable sales for the thirteen weeks ended August 3, 2024 decreased 8.7% compared with a total comparable sales decrease of 2.0% in the same period in fiscal 2024. The total comparable sales decline was driven by decrease in transaction volume and average ticket. The decline in transaction volume was driven by store conversion headwinds that resulted from lower in-stock levels across key, high-demand basic categories, which experienced a slower than expected recovery back to historical levels following Chapter 11 related vendor shipment disruptions. The decline in average ticket was driven by lower average unit retail levels associated with lapping the implementation of our 'read and react' pricing initiative in June of last year. This initiative is focused on strategically and selectively pulsing promotions on a near real-time basis to best drive shopper conversion and maximize gross profit dollars.

Gross Profit

Gross profit was \$196.3 million for the thirteen weeks ended August 3, 2024, a decrease of \$35.7 million or 15.4% compared to the same period in fiscal 2024. Gross margin was 47.9% for the thirteen weeks ended August 3, 2024, a decrease of 320 basis points compared to the thirteen weeks ended July 29, 2023. The decrease in gross margin was primarily driven by a decline in average unit retail levels associated with lapping the implementation of our 'read and react' pricing initiative in June of last year, increased eCommerce shipping costs associated with growth in our eCommerce business as well as increased ship-from-store split shipments resulting from our sub-optimal inventory position, a decline in purchase and quantity discounts due to lower domestic vendor allowance rates, higher clearance costs due to article rationalization actions, and slightly elevated shrink costs. These unfavorable drivers were partially offset by the flow-through of improved product costs negotiated with merchandise vendors, as well as improved import and domestic carrier rates.

Selling, General and Administrative Expenses

SG&A expenses were \$255.3 million for the thirteen weeks ended August 3, 2024, a decrease of \$14.6 million or 5.4% compared to the same period in fiscal 2024. This decrease was primarily driven by the flow-through of savings generated through our significant cost reduction initiatives implemented in fiscal 2024, including our new store labor operating model and optimized corporate headcount structure, lower overall store expenses, lower disposal and impairment charges, and lower incentive and stock-based compensation expenses. These savings were partially offset by increased operating lease right-of-use asset amortization expenses associated with the revalue of lease assets as part of the implementation of Fresh Start Accounting, as well as higher medical benefit costs. As a percentage of net sales, SG&A expenses for the thirteen weeks ended August 3, 2024 were 62.3%, an increase of 280 basis points compared to the same period in fiscal 2024. The increase as a percentage of sales was primarily driven by the 9.6% decrease in net sales in the second quarter of fiscal 2025 compared to the second quarter of fiscal 2024, partially offset by the decrease in SG&A expenses described above.

Interest Expense

Interest expense for the thirteen weeks ended August 3, 2024 was \$16.9 million, a decrease of \$9.9 million compared to the same period in fiscal 2024. The decrease in interest expense was primarily due to the discontinuation of recording interest on the Term Loan Due 2028 as a result of the Chapter 11 filings, details of which are described in Note 2 to the Consolidated Financial Statements above. The average debt level in the thirteen weeks ended August 3, 2024 was \$570.3 million compared to \$1,079.0 million in the thirteen weeks ended July 29, 2023. The weighted average interest rate was 11.54% and 9.82% for the thirteen weeks ended August 3, 2024 and July 29, 2023, respectively.

We had \$621.3 million of debt outstanding (face value) as of August 3, 2024, compared to \$1,115.2 million as of July 29, 2023.

Income Taxes

The effective income tax rate for the second quarter of fiscal 2025 (successor entity) was 0.0%. The effective tax rate was less than the federal statutory rate due to tax impacts related to the usage of net operating losses that were removed during the Company's reorganization and fresh-start adjustments.

Net Income (Loss)

Net loss was \$92.3 million for the thirteen weeks ended August 3, 2024, compared to net loss of \$73.3 million during the same period in fiscal 2024. The increase in net loss was primarily driven by the factors described above.

Adjusted EBITDA

Adjusted EBITDA (as defined above) was (\$43.2) million for the thirteen weeks ended August 3, 2024 compared to (\$21.9) million for the same period in fiscal 2024. The decrease was driven by the factors described above.

Liquidity and Capital Resources

We have three principal sources of liquidity: cash and cash equivalents on hand, cash from operations and available borrowings under our Exit ABL Facility. In addition, we believe that we have the ability to obtain alternative sources of financing, if necessary. We believe that our cash and cash equivalents on hand, cash from operations and availability under our Exit ABL Facility will be sufficient to cover our working capital, capital expenditure and debt service requirement needs as well as dividend payments and share repurchases, if any, for the next twelve months, as well as the foreseeable future. Subject to market conditions, we may from time to time repurchase our outstanding debt. As of August 3, 2024, we were in compliance with all covenants under our credit agreements.

Our capital requirements are primarily for capital expenditures in connection with new store location openings, store location remodels, investments in information technology, investments in distribution centers and working capital requirements for seasonal inventory build. These requirements fluctuate during the year and reach their highest levels during the second and third fiscal quarters as we increase our inventory in preparation for our peak selling season during the months of September through December and complete most of our capital spending projects.

The following table provides a summary of our cash provided by (used for) operating, investing and financing activities for the thirteen weeks ended August 3, 2024 and May 4, 2024 and twenty-six weeks ended July 29, 2023:

	Successor	Predecessor	Predecessor
	Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended
(In millions)	August 3, 2024	May 4, 2024	July 29, 2023
Net cash (used for) operating activities	\$ (94.5)	\$ (61.8)	\$ (82.3)
Net cash (used for) investing activities	(6.1)	(6.5)	(31.0)
Net cash provided by financing activities	88.3	74.0	112.2
Net increase (decrease) in cash and cash equivalents	\$ (12.3)	\$ 5.7	\$ (1.1)

Net Cash (Used for) Operating Activities

Net cash used for operating activities of \$94.5 million for the thirteen weeks ended August 3, 2024, was primarily comprised of our net loss, adjusted for non-cash activities, as well as working capital outlays associated with seasonal inventory builds.

Net Cash Provided by (Used for) Investing Activities

Net cash used for investing activities was \$6.1 million in the thirteen weeks ended August 3, 2024. The net cash used in the period consisted of capital expenditures, the majority of which were focused on strategic initiatives including: new store location openings, store location remodels and refreshes and information technology investments. We also incurred capital outlays for equipment and facility investments in our distribution centers, store locations and corporate offices.

Capital expenditures for the thirteen weeks ended August 3, 2024 and May 4, 2024 and the twenty-six weeks ended July 29, 2023 are summarized as follows:

	Successor	Predecessor	
	Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended
(In millions)	August 3, 2024	May 4, 2024	July 29, 2023
Store locations	\$ 3.9	\$ 5.4	\$ 25.3
Distribution centers	0.2	0.1	1.9
Information technology	1.7	0.2	1.9
Other	0.3	1.1	0.3
Total capital expenditures	6.1	6.8	29.4
Landlord contributions	(1.1)	(1.0)	(7.4)
Total capital expenditures, net of landlord contributions	\$ 5.0	\$ 5.8	\$ 22.0

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$88.3 million during the thirteen weeks ended August 3, 2024.

Net cash provided by financing activities for the thirteen weeks ended August 3, 2024 was the result of borrowings under our Exit ABL Facility. This inflow of cash was partially offset by payments on our Exit ABL Facility and finance lease obligations. As of August 3, 2024, we had the ability to borrow an additional \$53.8 million under the Exit ABL Facility subject to the facility's borrowing base calculation.

Off-Balance Sheet Transactions

Our liquidity is currently not dependent on the use of off-balance sheet transactions other than letters of credit, which are typical in a retail environment.

Seasonality

Our business exhibits seasonality, which is typical for most retail companies. Our net sales are stronger in the second half of the year than the first half of the year. Net income is highest during the months of September through December, which aligns with our peak selling season. Working capital needed to finance our operations fluctuates during the year and reaches its highest levels during the second and third fiscal quarters as we increase our inventory in preparation for our peak selling season.

Critical Accounting Policies and Estimates

Accounting policies and estimates are considered critical when they require management to make subjective and complex judgments, estimates and assumptions about matters that have a material impact on the presentation of our financial statements and accompanying notes. For a description of our critical accounting policies and estimates, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report for the fiscal year ended February 3, 2024.

Controls and Procedures.***Evaluation of Disclosure Controls and Procedures***

Our management, under the supervision of and with the participation of our Interim Chief Executive Officer and Interim Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of August 3, 2024. Based on that evaluation, our Interim Chief Executive Officer and Interim Chief Financial Officer concluded that, as of August 3, 2024, our disclosure controls and procedures were effective in ensuring that material information for the Company is recorded, summarized and reported within an appropriate amount of time to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is reported within a reasonable amount of time and are designed to ensure that the information required to be disclosed in the reports that it prepares is accumulated and communicated to the management to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of August 3, 2024 based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, our management, including our Interim Chief Executive Officer and Interim Chief Financial Officer, has concluded that our internal control over financial reporting was effective as of August 3, 2024.

There were no material changes in our internal control over financial reporting that occurred during the twenty-six weeks ended August 3, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

SIGNATURES

I have reviewed this Quarterly Report of JOANN Inc. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows for the periods presented in this Quarterly Report.

JOANN Inc.
Registrant

Date: November 1, 2024

By: /s/ Jeff Dwyer

Jeff Dwyer
Interim Chief Financial Officer
(principal financial officer)

- Confidential / Subject to NDPA
Connie Choe
cchoe@kelleydrye.com
UCC Advisors
Kelley Drye & Warren LLP
2025-02-06 12:21:28 -0500